



1

Notes Pages for Consumer Educators

developed by

Consumer and Community Affairs, Federal Reserve Board

with assistance from:

Federal Reserve Banks of the Federal Reserve System

American Automobile Manufacturers Association

American Financial Services Association Education Foundation

Arizona Attorney General

Association of Consumer Vehicle Lessors

Cooperative Extension System

Federal Trade Commission

Florida Attorney General

National Automobile Dealers Association

National Vehicle Leasing Association

Keys to Vehicle Leasing—A Consumer Guide is available from Publications Services, Mail Stop 127, Board of Governors of the Federal Reserve System, Washington, DC 20551. A glossary is available from the leasing section of the Federal Reserve Board's Web site: www.federalreserve.gov/pubs/leasing (select Leasing Language).

Consumer Leasing Act

- **Regulation M**
 - consumer leases
 - more than 4 months
 - \$25,000 contract or less



2

2. Consumer Leasing Act covers:

- consumer (not business) leases for personal property (can be a car, furniture, computer, cell phone, etc.)
- term must be more than 4 months
- contractual obligation of \$25,000 or less, which is set by statute, not regulation

Note that this amount is not the value of the asset but the value of the contract.

The Consumer Leasing Act is implemented by Regulation M. Copies of the regulation and the act are available from the Federal Reserve Board.

In addition, some states and localities have specific laws that apply to leases, especially with respect to sales taxes, personal property taxes (if any), license and registration fees, and vehicle inspections. Check with your state's Attorney General's office to learn more about laws that apply in your state.

Growth of Leasing New Cars and Light Trucks

1987	4.4%
1992	13.5
1996	25.2
1998	27.8

Source: CNW Marketing/Research



3

3. Data are from CNW Research—based on 1996-97 surveys. Note that data are for cars and light trucks, which include vans and sport-utility vehicles as well.

Use the glossary to define terms as you go through this presentation. Terms you may need to define here are:

Lessee

Lessor

Most leases are for 2–4 years, with an average of 35 months.

Most leases allow 12,000 to 15,000 miles per year, although you can get some low mileage (10,000) and higher mileage (18,000) leases.

Most consumer leases are closed-end leases (the lessor retains the risk for the residual value).

CNW does annual updates on their data, but data are proprietary.

New data tend to come out in June for the previous year.

To keep data updated, check automobile and trade association publications or contact the Federal Reserve.

Who Recommended Leasing to First Timers

	<u>1993</u>	<u>1996</u>
Ads	19%	34%
Co-worker	38	24
Dealer	23	24
Other sources	20	18

Source: CNW Marketing/Research



4

4. Data are from CNW Research—based on a 1996 survey of 6,000 vehicle lessees
Note that ads have become a more important source of information for consumers over the past 3 years.

Other sources include:

Promotional brochure	5%
Friend	4%
Neighbor	3%
Other (unspecified)	6%

Most Popular Reasons for Leasing

	<u>1994</u>	<u>1998</u>
Lower monthly payment	61%	42%
No/Low down payment	9	29
Can drive a nicer car	23	16
Better use of money	2	10

Source: CNW Marketing/Research



5

5. Data are from CNW Research—based on surveys of around 6,000 vehicle lessees
Terms you may want to define:

Capitalized cost reduction

Increased proportion report the no/low down payment attracted them to leasing. Note, however, that there is a difference between the capitalized cost reduction (or down payment) and the Amount Due at Lease Signing, which may include first month's payment, security deposit, acquisition fee, and other costs. Thus, a lease may have \$0 capitalized cost reduction but still have several hundreds of dollars due up front (at lease signing).

Other reasons cited (1998 data) include:

no trade-in hassle	1%
tax considerations	2%

Note: there is a business tax deduction if you lease a car. However, if you use the leased car primarily for business (for example, over half the miles are considered as being for business use), the Consumer Leasing Act does not apply. Check with the IRS (Publication 535 – Business Expenses) and current tax codes to determine the tax consequences for leasing.

Down Payments and Trade-ins

- **Down payments
(capitalized cost reduction)**

Make payment **70%**

Average amount **\$1,925**

- **Have a trade-in** **32%**

Source: CNW Marketing/Research



6

6. Data are from CNW Research—based on a 1996 survey of 6,000 vehicle lessees

The term “down payment” usually applies to credit or finance agreements when you buy a car. The term capitalized cost reduction is used in vehicle leasing as one way to differentiate a lease from a purchase. Both serve to reduce the principal that will be financed over the term of the agreement.

Note that 70% make a capitalized cost reduction even though no/low “down payments” are considered an advantage of leasing.

Average capitalized cost reduction is nearly \$2,000. The average down payment required by most financial institutions when getting a car loan is 10% (or \$2,000 for a \$20,000 car).

The higher the cap cost reduction, the lower your monthly payments will be (see slide 19).

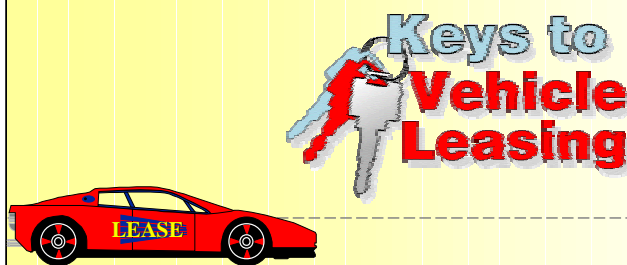
Note that nearly one-third had a trade-in. However, once you lease, you no longer own a car to trade in, so consumers probably won't have a trade-in on subsequent leases.

However, if the market value of the car at the end of the lease is higher than the residual value in the lease, there may be equity in the vehicle that you can acquire by exercising your purchase option. You would then have a vehicle to trade in. Alternatively, you may be able to transfer your purchase option to a third party (such as a dealer) and receive equity from that party.

Consumer Education Initiative

- Brochure
- Web site

<http://www.federalreserve.gov/pubs/leasing>



7

7. Keys to Vehicle Leasing—A Consumer Guide is available to consumers through lessors, dealers, Federal Reserve Banks, Cooperative Extension offices, and the Consumer Information Center in Pueblo, CO.

The Web site includes information in the brochure plus a glossary, a blank lease form consumers can print and use for shopping, and connections to other Web sites related to leasing.

Keys to Vehicle Leasing

- **Leasing is different from buying**
- **Consider beginning, middle, and end-of-lease costs**
- **You can compare lease offers and negotiate some terms**
- **Know your rights and responsibilities**



8

8. Core messages consumers need to remember

Leasing also requires that consumers learn a whole new vocabulary. Use the glossary to define terms as you go through this presentation.

Terms you may need to define here are:

Lessor

Lessee

Leasing is Different from Buying

- **Ownership**
- **Up-front costs**
- **Monthly payments**
- **Early termination**
- **Vehicle return**
- **Future value**
- **Mileage**
- **Excess wear**
- **End of term**



9

9. Refer consumers to the Leasing Is Different from Buying. Here's how.... section of the Keys to Vehicle Leasing brochure

Note that early termination may be voluntary or involuntary (for example, the vehicle is returned early, stolen, or totaled, or you default on the lease). In most cases of early termination, you must pay an early termination charge. If you default on making your lease payments, that is also considered an early termination, and early termination charges will apply.

Lease or Buy Considerations

Ask yourself

- **Typically, how often do you get a new vehicle?**
- **Do you maintain your car in good condition?**
- **How many miles per year do you drive?**



10

10. In general

Leases typically run 2 to 4 years; loans typically have 4- to 6-year terms. In general, the longer you keep your vehicle, the more likely you are to be a candidate for owning rather than leasing.

In addition to keeping the car in good mechanical condition, consider how likely you are to get permanent stains or holes in the seats, and whether you park where the car might get excessive dings and chips in the paint. In a lease, you may find excess wear charges assessed for not keeping the car in good condition. If you own, the trade-in or resale value of your car may be affected if you don't keep it in good condition.

Match the miles you drive to the lease terms. Most leases limit the number of miles you may drive (often 12,000–15,000 per year). You can negotiate a higher mileage limit and pay a higher monthly payment. If you own the vehicle, higher mileage will lower the vehicle's trade-in or resale value.

Consider **Beginning, Middle,** and **End-of-Lease Costs**

- **Acquisition fee**
- **First monthly payment**
- **Capitalized cost reduction**
- **Refundable security deposit**
- **Title, registration, & license fees**
- **Freight charges**
- **State and local taxes**



11

11. Refer to glossary for definition of terms in this section. Terms you may need to define are:

Acquisition fee

Capitalized cost reduction

Although the security deposit is refundable, if you have any excess mileage charges or excess wear charges, these amounts may be deducted from your security deposit.

Different states will treat some of these items differently. For example, some states will require that you pay all state taxes up front, while others will require that you pay the taxes monthly during the term of the lease. If you move from one state to another, you may have to change the way you pay the taxes on the leased vehicle.

Consider Beginning, Middle, and End-of-Lease Costs

- **Monthly payment**
- **Maintenance costs**
- **Insurance premiums**
- **If applicable:**
 - Early termination charges
 - Sales and use tax
 - Inspections
 - Personal property tax
 - Late payment fees



12

12. Refer to glossary for definition of terms in this section. Terms you may need to define are:

Early termination

Early termination charge

“Middle costs” do not occur only in the “middle” of the lease (for example, in month 18 of a 36-month lease), but rather during the lease. Some of these costs may be once-in-a-while costs, like registration and inspection fees, while others are recurring costs, like the monthly payment.

Most lessors will require that you carry “100,000/300,000” coverage. If you have not carried this much insurance before, you will see your insurance premiums go up. Insurance companies do not usually charge different rates for leased and owned vehicles.

Consider Beginning, Middle, and **End-of-Lease** Costs

Return

- **Disposition fee**
- **Excess wear charges**
- **Excess mileage charges**

Buy

- **Purchase option price**
- **Purchase option fee (if any)**



13

13. Refer to glossary for definition of terms in this section. Terms you may need to define are:

Disposition fee

Excess wear

Excess mileage

At the end of the lease, consumers may have several options:

- turn in the car and pay any end-of-lease charges due
- purchase the car if you have a purchase option
- extend the lease for a short term (typically month to month for up to 6 months)—usually under the same terms of the original lease
- re-lease the same vehicle; new terms and payments usually apply

Compare Offers and Negotiate Terms

- **Monthly lease payments**
- **End-of-lease payments**
- **Purchase option**
- **Whether gap coverage is included**



14

14. Refer to glossary for definition of terms in this section. Terms you may need to define are:

Gap coverage (see slide 16)

Some items in a lease are generally not negotiable (for example, purchase option, late charges), but consumers should compare the terms of different leases to make sure they're getting the best terms.

The monthly payment may be negotiable, but it is really a function of other items in the lease. If you have negotiated the agreed-upon value of the vehicle, the capitalized cost reduction, the length of the lease, the mileage allowance, and the residual value, you will have, in effect, negotiated your monthly payment.

Compare Offers and Negotiate Terms

- **Agreed-upon value of vehicle (price)**
- **Up-front payments, including capitalized cost reduction (down payment)**
- **Length of lease**
- **Mileage allowance & per-mile charges**



15

15. Some items are truly negotiable.

The capitalized cost reduction is negotiable and will affect the monthly payment. The more you put down, the lower your monthly payments will be—but the higher your up-front costs will be.

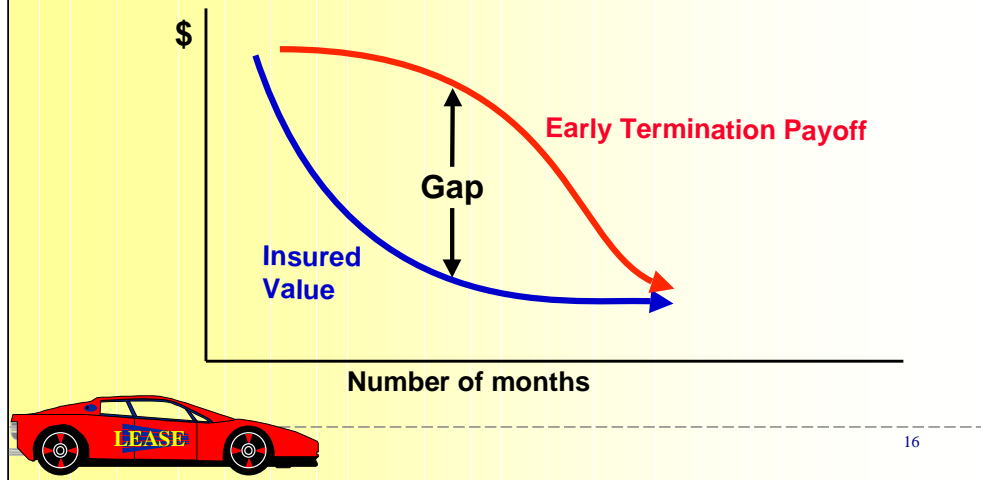
Length of lease—most leases are 2–4 years, with an average of 35 months (almost 3 years). Depreciation rates for cars are highest during the first two years; the depreciation rates slow down in years 3–5, and then restart as the car gets older (and potentially has more things go wrong with it).

In general, it's less expensive to “buy” extra miles up front by getting a lease with a higher mileage allowance. You “buy” these extra miles by having a lower residual value (that is, more depreciation on the car)—a car with 45,000 miles on it at the end of 3 years is worth less than a car with 36,000 miles on it. However, most lessors won't give you a rebate if you drive fewer miles than allowed, so it's best to get a lease with the mileage that most closely approximates what you'll actually drive.

Don't forget to negotiate the value (price) of the vehicle! Ask about rebates, incentives, and go prepared with information on dealer invoice costs (you can get this from various books and Web sites). If there are manufacturer's incentives for a particular vehicle, the dealer may already be passing these on to you and there may not be much room for negotiation on the price of the car.

The Gap

The difference between
the insured value of the vehicle
and the amount due for early termination



16. The gap is the difference between the early termination payoff amount—the top line of the graph—and the insured value of the vehicle—the bottom line of the graph—at any point in time during the lease.

An example:

Your car is totaled in an accident half way through your lease. The adjusted lease balance is \$16,000. Your insurance company says the book value of the car is only \$15,000 and you have a \$500 deductible; they pay \$14,500. The difference between the \$16,000 you still owe on the lease and the \$15,000 insured value is “the Gap.” If you don’t have gap coverage, you are responsible for the \$1,000 gap and the \$500 deductible. If you do have gap coverage, it will cover the gap—but you are still responsible for the \$500 deductible.

Many lessors will “waive” gap liability so that you won’t have to pay anything extra to have gap coverage. In reality, this type of gap coverage is “paid for” in the fees the lessor is charging you and other lessees whose vehicles are not totaled. Other lessors will not waive the gap liability but may offer gap coverage at an additional charge (usually in the \$400–\$500 range). You can also shop around for gap coverage offered by insurers and other third parties.

In general, gap coverage, or a waiver of the gap, is important.

Know Your Rights and Responsibilities

- Use for agreed-upon number of months and miles
- Service under warranty or recalls
- Turn it in, pay any end-of-lease charges, and “walk away”
- Buy the car if you have a purchase option



17

17. Read your contract thoroughly to understand what you're agreeing to.

THERE IS NO COOLING OFF LAW THAT COVERS PURCHASES OR LEASES AT VEHICLE RETAILERS! If the dealer/lessor says you can change your mind and turn the car back in, make sure that's in writing!

Show a sample lease contract so that consumers understand the difference between the required disclosures and the full contract.

Know Your Rights and Responsibilities

Returning the vehicle

- **Early**
 - early termination charges
- **At end of lease**
 - excess mileage charges, if any
 - excess wear charges, if any



18

18. You are also responsible for abiding by all the terms and conditions of the contract. Know what you're agreeing to before you sign. If you're feeling pressured, it's OK to say you need time to think about this and "sleep on it." Manufacturer incentives and rebates will have time limits. However, there are a lot of cars and a lot of lessors; and it's likely that other promotions and incentives will be offered in the future.

A Lease's Monthly Payment

$$\begin{aligned} & \text{Gross cap cost} \\ & - \text{Reductions} \\ & = \text{Adjusted cap cost} \\ & - \text{Residual value} \\ & = \text{Depreciation} \\ & + \text{Rent} \\ & = \text{Total for calculating} \\ & \quad \text{base monthly payments} \\ & \div \text{Lease term in months} \\ & = \text{Base monthly payment} \end{aligned}$$



19. This slide shows an overview of all the parts of the lease disclosure for a lease with monthly payments—the following slides will go through these pieces step-by-step.

Gross Capitalized Cost

Agreed-upon value
(Price plus freight and options)

- + Insurance that is capitalized**
- + Prior loan or lease balances**
- + Acquisition or documentation fee**
- + ???**



20

20. Refer to glossary for definition of terms in this section. Terms you may need to define are:

Gross capitalized cost

Prior loan/lease balance

Acquisition/documentation fee

Other add-ons include

license & registration fees

optional service contracts (commonly called extended warranty) and mechanical breakdown coverage contracts

any up-front sales taxes

Consumers can, and probably should, ask for an itemization of the gross capitalized cost.

Capitalized Cost Reduction

Cash

+ Trade-in allowance

+ Rebates/dealer incentives

**Think of capitalized cost reduction
as pre-paid depreciation.**



21

21. Refer to glossary for definition of terms in this section. Terms you may need to define are:

Rebates

Incentives

It's important to think of the capitalized cost reduction (similar to a down payment) as pre-paid depreciation. To understand that, look at the example in the sample leasing form and work through the numbers without the \$3,500 capitalized cost reduction.

Also, because you are “financing” less when you make a cap cost reduction, the rent charge will be less. If you were to have a lower cap cost reduction, the adjusted cap cost would be higher—so the rent charge would go up.

Residual Value

Assuming Residual Value = Purchase Option Price

Higher Residual

Monthly payment is lower



Purchase option price is higher



Lower Residual

Monthly payment is higher



Purchase option price is lower



Negotiating a higher mileage allowance
will lower residual value.



22

22. Refer to glossary for definition of terms in this section. Terms you may need to define are:

Residual value

Depreciation

MSRP

The residual value is usually set according to guidelines from the third-party assignee/lessor who purchases the lease from the originating dealer. It is usually based on guidebooks or historical data.

It is usually set as a percentage of the MSRP—not the agreed-upon value the consumer has negotiated.

There is a direct relationship between the residual value and the monthly payment, and between the residual value and the purchase option price, assuming the fixed purchase option price equals the residual value.

If you are pretty sure you will be turning the car in at the end of the lease, you may want to look for a higher residual value, which will lower your monthly payments. However, if you decide to buy the car at the end of the lease, the purchase price may be higher.

If you think you may want to buy the car at the end of the lease, you may want to look for a low residual value—keep in mind this will mean higher monthly payments, but lower total rent charges.

If you've negotiated more miles in your lease (for example, 18,000 instead of 15,000), you will have a lower residual value (a car with 54,000 miles on it is worth less than a car with 45,000 miles), which means you will face higher monthly payments, but either a lower purchase price or less chance of excess mileage charges.

Depreciation— You Pay For What You Use

Lease

Pay the stated depreciation
during the lease term

$$\begin{array}{r}
 \$22,300 \text{ gross cap cost} \\
 - \quad 12,350 \text{ residual value} \\
 \hline
 = \quad 9,950 \text{ depreciation} \\
 \div \quad 48 \text{ months} \\
 \hline
 = \quad \$207 \text{ avg. depreciation} \\
 \text{per month}
 \end{array}$$

Finance

Pay the full cost
during the loan term

$$\begin{array}{r}
 \$22,300 \text{ cost of vehicle} \\
 \div \quad 48 \text{ months} \\
 \hline
 = \quad \$465 \text{ avg. cost} \\
 \text{per month}
 \end{array}$$



23

23. This example is greatly simplified, but it helps show why leasing usually has lower monthly payments than financing when purchasing a vehicle.

Monthly lease payments are usually lower than monthly loan payments because you are paying only for the vehicle's depreciation during the lease term, plus rent charges (like interest), taxes, and fees. Monthly loan payments are usually higher than monthly lease payments because you are paying for the entire purchase price of the vehicle, plus interest and any other finance charges, taxes, and fees.

Keep in mind that if you bought the car and financed it, even though you pay the full cost over the term of the loan, you may keep the car longer than the loan (for example, the loan in the example is for 4 years, but you may keep this car for 8 years).

Rent Charge

- **Cost of money over time**
(Similar to interest on a loan)
- ***Not an APR***



24

24. Refer to glossary for definition of terms in this section. Terms you may need to define are:

Rent charge

APR

The rent charge may be referred to as the lease charge. The number used to calculate the rent charge may be referred to as the lease rate, money factor, or lease factor.

There is no Annual Percentage Lease (APL) rate. Lessors cannot use this term.

[For the instructor:

The difficulties in calculating an annual percentage lease rate stem from the need to assume a value for all but one of the unknowns in the lease equation in order to arrive at a unique solution to the mathematical formula for a lease rate. Because it's impossible to know at lease inception what the consumer will do at lease-end (purchase the car, lease a different car, re-lease the same car) and because the value of the purchase option and residual value are part of the formula, there is no unique solution to the lease rate calculation. Different assumptions about depreciation and residuals can change the annual percentage lease rate for the same payment stream, even apart from any issue of manipulation by dealers, lessors, or assignees.]

Federal Consumer Leasing Act Disclosures

Date: 03/05/00

Lessee(s): J. Smith

1

Amount Due at Lease Signing or Delivery	Monthly Payments	Other Charges (not part of your monthly payment)	Period of Payments
Amount due at lease signing or delivery: <u>\$4,241.04</u>	Your first monthly payment is <u>\$256.04</u> followed by <u>47</u> payments of <u>\$256.04</u> due on the <u>1st</u> of each month. The total of your monthly payments is <u>\$12,335.92</u>	Disposition fee of <u>\$400.00</u> (prepayment fee of <u>\$0.00</u>) Total <u>\$400.00</u>	Period of payments (the amount you will have paid by the end of the lease): <u>\$12,335.92</u>
2	3	4	5

2. Identification of Amount Due at Lease Signing or Delivery

Amount Due at Lease Signing or Delivery:	Then the Amount Due at Lease Signing or Delivery will be paid:
Capitalized cost reduction: <u>\$5,000.00</u>	Net trade-in allowance: <u>\$2,800.00</u>
First monthly payment: <u>\$256.04</u>	Refund and research credits: <u>\$1,746.94</u>
Refundable security deposit: <u>\$0.00</u>	Amount to be paid in cash: <u>\$0.00</u>
Title fees: <u>\$0.00</u>	
Registration fees: <u>\$0.00</u>	
Total: <u>\$4,241.04</u>	Total: <u>\$4,241.04</u>
6a	6b

3. Your monthly payment is determined as shown below:

8. Current capex rate, the agreed upon rate of the vehicle is \$0.00 and the lease rate is \$0.00. You pay over the lease term based on vehicle condition, insurance, and any outstanding prior credit or lease balance: \$0.00

If you want an indication of this amount, please check the box: ☐

9. Capitalized cost reduction. The amount of any net trade-in allowance, rebate, research credit, or cash you pay that reduces the gross capitalized cost: \$5,000.00

Adjusted capitalized cost. The amount used in calculating your base monthly payment: \$5,000.00

Residual value. The value of the vehicle at the end of the lease used in calculating your base monthly payment: \$2,550.00

Depreciation and any amortized amounts. The amount charged for the vehicle's decline in value through normal use and for other items paid over the lease term: \$6,490.00

10. Rent charge. The amount charged in addition to the depreciation and any amortized amounts: \$6,490.00

Total of base monthly payments. The depreciation and any amortized amounts plus the rent charge: \$6,490.00

Lease term. The number of months in your lease: 48

Base monthly payment: \$244.89

11. Monthly customer fee: \$0.00

12. Total monthly payment: \$256.04

13. Early Termination. You may have to pay a substantial charge if you end this lease early. The charge may be up to seven times the monthly fee. The actual charge will depend on when the lease is terminated. The earlier you end the lease, the greater this charge is likely to be.

14. Excess Wear and Tear. You may be charged for excessive wear based on our standards for normal use (and for damage to parts: \$0.00 per year at the rate of \$0.00 per mile).

15. Purchase Option at End of Lease Term. You have an option to purchase the vehicle at the end of the lease term for \$12,335.92 and a purchase option fee of \$0.00.

Other Important Terms. See your lease document for additional information on early termination, purchase options and maintenance responsibilities, warranties, late and default charges, insurance, and any security interest, if applicable.

25

25. Refer consumers to the “centerfold” in the Keys to Vehicle Leasing brochure—the numbers are the same.

This slide provides an overview and shows how all the pieces fit together—we are about to go through the 4 major sections of this disclosure form.

Top of Lease Form Disclosures

Federal Consumer Leasing Act Disclosures

Date 00/00/00

Lessor(s) Dealer or Leasing Company

Lessee(s) J. Smith

1

Amount Due at Lease Signing or Delivery	Monthly Payments	Other Charges (not part of your monthly payment)	Total of Payments
(Itemized below)* \$ <u>4,241.94</u>	Your first monthly payment of \$ <u>256.94</u> is due on <u>00/00/00</u> , followed by <u>47</u> payments of \$ <u>256.94</u> due on the <u>1st</u> of each month. The total of your monthly payments is \$ <u>12,333.12</u> .	Disposition fee (if you do not purchase the vehicle) \$ <u>400.00</u> Total \$ <u>400.00</u>	(The amount you will have paid by the end of the lease) \$ <u>16,368.12</u>
2	3	4	5

26. These top boxes provide a “snapshot” of the beginning (up-front), middle, and end-of-lease costs along with an estimate of the total of payments in this lease.

Top of Lease Form Disclosures

Federal Consumer Leasing Act Disclosures

Date 00/00/00

Lessor(s) Dealer or Leasing Company Lessee(s) J. Smith **1**


Amount Due at Lease Signing or Delivery (Itemized below)* 2 \$ <u>4,241.94</u>	Monthly Payments Your first monthly payment of \$ <u>256.94</u> is due on <u>00/00/00</u> , followed by <u>47</u> payments of \$ <u>256.94</u> due on the <u>1st</u> of each month. The total of your monthly payments is \$ <u>12,333.12</u> . 3	Other Charges (not part of your monthly payment) 4 Disposition fee (if you do not purchase the vehicle) \$ <u>400.00</u> <u>-0-</u> Total \$ <u>400.00</u>	Total of Payments (The amount you will have paid by the end of the lease) 5 \$ <u>16,368.12</u>
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Beginning


27. These top boxes provide a “snapshot” of the beginning (up-front), middle, and end-of-lease costs along with an estimate of the total of payments in this lease.

Top of Lease Form Disclosures

Federal Consumer Leasing Act Disclosures			
Date <u>00/00/00</u>			
Lessor(s) <u>Dealer or Leasing Company</u>		Lessee(s) <u>J. Smith</u> 1	
Amount Due at Lease Signing or Delivery (Itemized below)* 2 \$ <u>4,241.94</u>	Monthly Payments Your first monthly payment of \$ <u>256.94</u> is due on <u>00/00/00</u> , followed by <u>47</u> payments of \$ <u>256.94</u> due on the <u>1st</u> of each month. The total of your monthly payments is \$ <u>12,333.12</u> 3	Other Charges (not part of your monthly payment) 4 Disposition fee (if you do not purchase the vehicle) \$ <u>400.00</u> Total \$ <u>400.00</u>	Total of Payments (The amount you will have paid by the end of the lease) 5 \$ <u>16,368.12</u>



Beginning



Middle

28. These top boxes provide a “snapshot” of the beginning (up-front), middle, and end-of-lease costs along with an estimate of the total of payments in this lease.

Top of Lease Form Disclosures

Federal Consumer Leasing Act Disclosures

Date 00/00/00

Lessor(s) Dealer or Leasing Company Lessee(s) J. Smith **1**

Amount Due at Lease Signing or Delivery (Itemized below)* 2 \$ <u>4,241.94</u>	Monthly Payments Your first monthly payment of \$ <u>256.94</u> is due on <u>00/00/00</u> , followed by <u>47</u> payments of \$ <u>256.94</u> due on the <u>1st</u> of each month. The total of your monthly payments is \$ <u>12,333.12</u> . 3	Other Charges (not part of your monthly payment) 4 Disposition fee (if you do not purchase the vehicle) \$ <u>400.00</u> <u>-0-</u> Total \$ <u>400.00</u>	Total of Payments (The amount you will have paid by the end of the lease) 5 \$ <u>16,368.12</u>
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Beginning
Middle
End

29. These top boxes provide a “snapshot” of the beginning (up-front), middle, and end-of-lease costs along with an estimate of the total of payments in this lease.

Top of Lease Form Disclosures

Federal Consumer Leasing Act Disclosures

Date 00/00/00

Lessor(s) Dealer or Leasing Company Lessee(s) J. Smith **1**

Amount Due at Lease Signing or Delivery (Itemized below)* 2 \$ <u>4,241.94</u>	Monthly Payments Your first monthly payment of \$ <u>256.94</u> is due on <u>00/00/00</u> , followed by <u>47</u> payments of \$ <u>256.94</u> due on the <u>1st</u> of each month. The total of your monthly payments is \$ <u>12,333.12</u> 3	Other Charges (not part of your monthly payment) 4 Disposition fee (if you do not purchase the vehicle) \$ <u>400.00</u> <u>-0-</u> Total \$ <u>400.00</u>	Total of Payments (The amount you will have paid by the end of the lease) 5 \$ <u>16,368.12</u>
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Beginning **Middle** **End** **Overall**

30

30. These top boxes provide a “snapshot” of the beginning (up-front), middle, and end-of-lease costs along with an estimate of the total of payments in this lease.

The total of payments box (#5) does not include insurance, maintenance, personal property taxes (if any), registration, and other ancillary fees and services consumers may pay over the term of the lease and that are not included in monthly payments. It also does not include refundable amounts or amounts that may be due if you end the lease early or exceed wear or mileage limits. It does provide information on some of the overall costs of the lease contract.

In this example,

$$5 = (2 + 3 + 4) - (\text{first monthly payment} + \text{security deposit})$$

Amounts Due at Lease Signing Are Itemized

Federal Consumer Leasing Act Disclosures

Date 00/00/00

Lessor(s) Dealer or Leasing Company Lessee(s) J. Smith **1**

Amount Due at Lease Signing or Delivery (Itemized below)* 2 \$ <u>4,241.94</u>	Monthly Payments Your first monthly payment of \$ <u>256.94</u> is due on <u>00/00/00</u> , followed by <u>47</u> payments of \$ <u>256.94</u> due on the <u>1st</u> of each month. The total of your monthly payments is \$ <u>12,333.12</u> . 3	Other Charges (not part of your monthly payment) 4 Disposition fee (if you do not purchase the vehicle) \$ <u>400.00</u> Total \$ <u>400.00</u>	Total of Payments (The amount you will have paid by the end of the lease) 5 \$ <u>16,368.12</u>
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*** Itemization of Amount Due at Lease Signing or Delivery**

Amount Due at Lease Signing or Delivery: 6		How the Amount Due at Lease Signing or Delivery will be paid:	
Capitalized cost reduction	\$ <u>3,500.00</u>	Net trade-in allowance	\$ <u>2,500.00</u>
First monthly payment	<u>256.94</u>	Rebates and noncash credits	<u>0</u>
Refundable security deposit	<u>350.00</u>	Amount to be paid in cash	<u>1,741.94</u>
Title fees	<u>75.00</u>		
Registration fees	<u>60.00</u>		
Total	\$ <u>4,241.94</u> 6a	Total	\$ <u>4,241.94</u> 6b

Column totals should be equal

31. Box #2 is expanded in the second section of the lease. The itemization of the amounts due at lease signing was designed to address concerns about “disappearing down payments” and “disappearing trade-ins.”

Note that the out-of-pocket amount “due” at lease signing in this case is not the full \$4,241.94 but only \$1,741.94 (amount to be paid in cash) because there is a \$2,500 trade-in.

Monthly Payment Calculation

7 Your monthly payment is determined as shown below:

8 **Gross capitalized cost.** The agreed upon value of the vehicle (\$ 21,500.00) and any items you pay over the lease term (such as service contracts, insurance, and any outstanding prior credit or lease balance) \$ 22,300.00

If you want an itemization of this amount, please check this box. ☐

9 **Capitalized cost reduction.** The amount of any net trade-in allowance, rebate, noncash credit, or cash you pay that reduces the gross capitalized cost - 3,500.00

Adjusted capitalized cost. The amount used in calculating your base monthly payment = 18,800.00

Residual value. The value of the vehicle at the end of the lease used in calculating your base monthly payment - 12,350.00

Depreciation and any amortized amounts. The amount charged for the vehicle's decline in value through normal use and for other items paid over the lease term = 6,450.00

10 **Rent charge.** The amount charged in addition to the depreciation and any amortized amounts + 5,295.00

Total of base monthly payments. The depreciation and any amortized amounts plus the rent charge = 11,745.00

Lease term. The number of months in your lease + 48

Base monthly payment = 244.69

11 **Monthly sales/use tax** + 12.25

12 **Total monthly payment** = \$ 256.94

32. This shows how all the pieces (gross cap cost, cap cost reduction, adjusted cap cost, residual value, depreciation, rent charge) fit together to determine the base monthly payment. Add monthly sales/use taxes (if any in your state) to get the total monthly payment.

Note that there is a separate check box for consumers to request an itemization of the gross capitalized cost.

Additional Disclosures

13 Early Termination. You may have to pay a substantial charge if you end this lease early. The charge may be up to several thousand dollars. The actual charge will depend on when the lease is terminated. The earlier you end the lease, the greater this charge is likely to be.

14 Excessive Wear and Use. You may be charged for excessive wear based on our standards for normal use [and for mileage in excess of 15,000 miles per year at the rate of .15 per mile]. **15**

16 Purchase Option at End of Lease Term. You have an option to purchase the vehicle at the end of the lease term for \$ 12,350.00 and a purchase option fee of \$ 150.00.

Other Important Terms. See your lease documents for additional information on early termination, purchase options and maintenance responsibilities, warranties, late and default charges, insurance, and any security interest, if applicable.

- **Early termination**
- **Excess wear and mileage**
- **Purchase option**
- **Other terms in the lease**

33

33. These disclosures include a
- conspicuous notice about early termination costs
 - notice about excess wear
 - disclosure of the mileage limit and cost of excess mileage
 - disclosure of the purchase option price, if any
 - disclosure of any purchase option fee, if any
 - reminder to read the rest of the contract.

Federal Consumer Lending Act Disclosures

Store: 00000000

Transaction: Dealer or Lending Company Lessee: J. Smith 1

Amount Due at Lease Signing or Delivery (Amount shown below) a. <u>4,241.94</u> 2	Monthly Payments Your first monthly payment is <u>256.04</u> to be paid <u>00000000</u> followed by the <u>48</u> payments of <u>256.04</u> due on the <u>1st</u> of each month. The total of your monthly payments is <u>12,389.92</u> 3	Other Charges (not part of your monthly payments) (Amount shown below) b. <u>400.00</u> 4 (Amount shown below) c. <u>0.00</u> Total <u>400.00</u> 5	Period of Payments (The amount you will have paid by the end of the lease) <u>16,789.92</u> 6
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7 Identification of Amount Due at Lease Signing or Delivery

Amount Due at Lease Signing or Delivery: Capitalized cost reduction <u>5,500.00</u> First monthly payment <u>256.04</u> Refundable security deposit <u>400.00</u> Title fees <u>0.00</u> Registration fees <u>0.00</u> Total <u>6,156.04</u> 7a	Then the Amount Due at Lease Signing or Delivery will be paid: Net trade-in allowance <u>2,500.00</u> Refund and research credits <u>0.00</u> Amount to be paid in cash <u>3,656.04</u> Total <u>6,156.04</u> 7b
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8 Your monthly payment is determined as shown below:

8. Vehicle acquisition cost. The agreed sales price of the vehicle is 16,789.92 and the amount you pay over the lease term (such as interest, insurance, and any outstanding prior credit or lease balance) is 0.00.

If you want an illustration of this amount, please check the box ☐

9. Capitalized cost reduction. The amount of any net trade-in allowance, rebate, research credit, or cash rise pay that reduces the gross capitalized cost is 5,500.00.
 Adjusted capitalized cost. The amount used in calculating your base monthly payment is 11,289.92.
 Residual value. The value of the vehicle at the end of the lease used in calculating your base monthly payment is 12,500.00.
 Depreciation and any amortized amounts. The amount charged for the vehicle's decline in value through normal use and for other items paid over the lease term is 6,489.92.
 Rent charge. The amount charged in addition to the depreciation and any amortized amounts is 5,746.00.
 Total of base monthly payments. The depreciation and any amortized amounts plus the rent charge is 12,235.92.
 Lease term. The number of months in your lease is 48.
 Base monthly payment 254.92.
 Monthly customer fee 1.12.
 Total monthly payment 256.04 10

11. Early Termination. You may have to pay a substantial charge if you end this lease early. The charge may be up to several thousand dollars. The actual charge will depend on when the lease is terminated. See earlier part of the lease for the greater this charge is likely to be.

12. Excess Wear and Tear. You may be charged for excessive wear based on our standards for normal use (and for damage to paint).
 of 0.00 sales per year at the rate of 0.00 per mile 13

14. Purchase Option at End of Lease Term. You have an option to purchase the vehicle at the end of the lease term for 12,500.00 and a purchase option fee of 0.00.

Other Important Terms. See your lease document for additional information on early termination, purchase options and maintenance responsibilities, warranties, late and default charges, insurance, and any security interest, if applicable.

34. These disclosures are only part of the lease contract. Show a sample lease contract so that consumers understand the difference between the required disclosures and the full contract.

Early Termination Notice

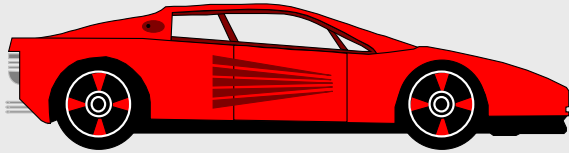
You may have to pay a substantial charge if you end this lease early. The charge may be up to several thousand dollars. The actual charge will depend on when the lease is terminated. The earlier you end the lease, the greater this charge is likely to be.




35

35. Note that early termination may be voluntary (for example, you're tired of the car and you want to turn it in early) or involuntary (the car is stolen or totaled); if you default on making your lease payments, that is also considered an early termination, and early termination charges will apply.

Advertising



SPARK EX
Lease for \$245/month for 48 mo.
\$4,095 due at lease signing, includes security deposit
excludes taxes, title, and registration fees
15,000 miles per year.
Subject to credit approval



36

36. Consumer Leasing Act Regulation M requires that, except for the monthly payment, no other component of the total amount due at lease signing (for example, the cap cost reduction/downpayment) may be more prominently advertised than the total amount due at lease signing (\$4.095 in the example)

If a printed lease ad includes any of the triggering terms (the amount of any payment or a statement of any or no capitalized cost reduction or other payment required prior to or at delivery), it must also include:

- that the transaction is a lease
- the total amount due prior to or at delivery
- the number, amounts, and due dates of the payments
- a statement of whether or not a security deposit is required

If third-party fees (taxes, license, registration) that vary by state or locality are due up front, the lessor may disclose that these fees have been excluded or may include the fees along with a statement that the fees may vary by state or locality.

For an open-end lease only, the ad must also state that extra charges may be imposed at the end of the lease term (if the lessee's liability is based on the difference between the residual value and the realized value at the end of the lease).

The disclosures must be made in a clear and conspicuous manner so that consumers can read and understand them. Unfamiliar abbreviations or terms are not allowed..

This is an ad for the EX model of the Spark. It tells the monthly payment (\$245) and the term of the lease (48 months). It tells you that to get this monthly payment, you need to pay \$4,095 at lease signing. This amount includes a security deposit but excludes taxes, title, and registration fees. It tells you that this lease allows you 15,000 miles per year. It also tells you that if you apply for a lease, the lessor may run a credit check on you.

Beyond the Ad

- **You're responsible for ongoing license plate, inspection, and emission test fees**
- **Required insurance coverage may be at higher limits than you now carry**
- **You must follow the maintenance schedule**
- **You're responsible for "excess wear"**



37

37. Beyond the text in the ad, there's a lot for consumers to know.

The ad doesn't have information on:

- if there's a purchase option, and if so, what the purchase option price is
- if there's gap coverage
- how the amount due at lease signing is itemized
- other disclosures that will be provided in the lease but that are not included in the ad
- other terms for this particular offer

Lease Rate — Advertising

May not be

- advertised as an “annual percentage rate” or “annual lease rate” or any equivalent term.
- more prominent than required written disclosures

Must state

“This percentage rate may not measure the overall cost of financing this lease”

Don't use the Lease Rate as you would use an APR to shop for the best rate on a loan.



38

38. In general, Regulation M discourages lessors from advertising a lease rate.

There must be a disclaimer, and the rate figures must not be more prominent than other information.

Lessors cannot use the terms APR or APL.

[For the instructor:

The difficulties in calculating an annual percentage lease rate stem from the need to assume a value of one or more of the unknowns in the lease equation in order to arrive at a unique solution to the mathematical formula for a lease rate. Because it's impossible to know at lease inception what the consumer will do at lease-end (purchase the car, lease a different car, re-lease the same car) and because the value of the purchase option and residual value are part of the formula, there is no unique solution to the lease rate calculation. Different assumptions about depreciation and residuals can change the annual percentage lease rate for the same payment stream, even apart from any issue of manipulation by dealers, lessors, or assignees.]

Special Issues

- **Personal property taxes**
- **Relocation/Transfers**
 - Within U.S.
 - Outside U.S.
- **Flexibility in payments**



39

39. These special issues may be important if you tend to move a lot in your job or if you are in the military.

In states with personal property taxes, you will still owe those taxes, even though the lessor holds title to the car. This is especially important for military personnel, who are exempt from personal property tax when they hold title to their own car. If a member of the military leases a car, the exemption does not apply to the lessor (who holds the title), and the military personnel will have to pay the tax.

Not all lessors will let you move the car out of state—the major national leasing companies generally allow this, but smaller regional companies generally do not.

Virtually none of the leasing companies let you move your car outside the United States, with the exception of letting you drive to Canada (not Mexico) for a vacation.

Most lessors do not allow any flexibility in payments. Unlike car loan payments, in which you can sometimes make “interest only” payments if needed, lessors generally will require full payments every month. Consumers who need a lot of flexibility in their budgets (for example, seasonal workers) may find that leasing doesn’t work for them.

If You Have a Problem, Talk to . . .

- 1. The dealer, manufacturer, or lessor**
- 2. Local consumer protection office
or State Attorney General's office**
- 3. Federal Trade Commission or Federal regulators**
(if the lessor is a bank)
 - Federal Reserve Board
 - Federal Deposit Insurance Corporation
 - Office of the Comptroller of the Currency
 - Office of Thrift Supervision



40

40. Try to resolve your problems locally with your dealer or lessor. As a next step, work with your local office of consumer protection (if available) or you may want to work with your state's Attorney General's office.

For the "captive finance companies" (Ford, GM, Chrysler, Honda, Toyota, Mazda, Mitsubishi, and so on) and other leasing finance companies, you can contact the Federal Trade Commission.

You can also contact other federal regulators. If your leasing company is a financial institution (such as a bank or credit union), contact the federal regulator for that institution.

Questions?

